



More thoughts on the CERA report

Posted by [Heading Out](#) on August 16, 2005 - 6:54am

[Econbrowser](#) has kindly printed, and directed us to [a source for the CERA predictions](#) on supply growth. A quote from that source may be an appropriate start

Nigeria, Iran and Iraq are going to be saviors. Sounds a little sketchy to me. If you look at the assumptions that CERA projected they are looking for a 26% increase in production from 2004 to 2010. Going back six years (1998-2004) world oil production increased 11%. Aggressive? On the demand side CERA is predicting a 17% increase (2004-2010) versus a 10% increase in world consumption from (1998-2004).

Now, as to the numbers, given the length of time that it will take to go through all of them, and that this is the end of the summer (time for final reports) and the start of fall (time for proposals and lecture preparation) all at once, this is going to have to be done in bits.

And, while Econbrowser was kind enough to stack them in relative order of size of increased production, I would rather work from the list of [current largest producers](#) on down (since that carries it's own message). And a lot of what follows is repetition "but it is important to cite the sources that question the CERA numbers.

The largest current producer is Saudi Arabia (currently at around 9.6 mbd) where the gain in production is anticipated to be 3 mbd. Which gives them 12.5 mbd (give or take) by 2010. Firstly let us have a quote from the Aramco Senior Vice President as found on the [EIA web page](#) for Saudi Arabia.

One challenge for the Saudis in achieving this objective is that their existing fields sustain 5 percent-12 percent annual "decline rates," (according to Aramco Senior Vice President Abdullah Saif, as reported in *Petroleum Intelligence Weekly* and the *International Oil Daily*) meaning that the country needs around 500,000-1 million bbl/d in new capacity each year just to compensate.

To put this in perspective, when Aramco started to redevelop the Abu Sa'fah and Qatif fields, it was stated that the additional 800,000 bd that they would produce would not increment overall Saudi production, but rather [cover depletion in other fields](#). However this was changed in the Cordesman report and I quote

"Until mid-2004, a new capacity addition "the Qatif-Abu Safa increment" was classified by Aramco as capacity which would offset decline, not contributing to a higher Maximum Sustainable Capacity (MSC). In response to the unanticipated demand growth of 2004, the Qatif-Abu Safa net increment of 650,000 bd was reclassified as an

addition to MSC and Minister Naimi announced that declines would be offset by "intensified drilling in existing producing fields."

Here's the catch to that " go to the [Baker Hughes web site](#) and navigate through to the Excel spreadsheet for International Rig Count July 2005. Move across the sheet to the right and you will see that Saudi Arabia currently has 37 rigs drilling (34 onshore and 3 offshore). We discussed their productivity [here](#), but it can be summarized with the statement that until they get the additional rigs that they have on order (with some 30 due by the end of this year and another 20 thereafter to bring the overall total to 90). Until those rigs arrive and are put to work they are not offsetting current depletion, since the rigs on hand are required to [develop the new production](#) that will be the gain that everyone is anticipating from Haradh, the Khursaniyah complex, Shaybah and Khoreis. It is not unreasonable to assume that they will lose a year of drilling time. If every year they are losing 1 mbd (and the recognized 800,000 last year would suggest it has risen to the current upper limit), then they don't have the rigs this year to make up that depletion, and will only catch up with current depletion say at the end of next year.

This is the problem with depletion, it is a continuing slope, so that if we are depleting 1 mbd a year, then next year we down 2 mbd and the year after 3 mbd. So that if they are down when they start they can't catch up. (For now we will only mention that they are currently assuming about 11% depletion, the concerns from Oman, the North Sea and Mexico are that the realistic number with maximum contact recovery may well be over 14% - as [J referred to](#) the other day.

So, for what it's worth I believe, for the reasons cited above, that the CERA predicted production number is probably about 1 mbd too high. (Because, if for no other reason, than that they are counting Manifa " of which enough has been said, but with that in consideration it may, in fact, end up being 2 mbd too high).

The second largest producer is Russia, currently [producing about 9.2 mbd](#). However while CERA is predicting that Russia will increase production by 1.15 mbd, they are [not finding the new fields](#) to develop this production, and there are concerns as to the [real reasons for recent increases](#). Based on those, my best guess is that we will be lucky if Russian production has not declined significantly by 2010.

Iran (current production 4.0 mbd, anticipated gain 1 mbd) was discussed recently [here](#) where the Iranian oil minister was quoted as saying

Iran's crude oil output is depleting by up to 400,000 barrels a day each year, Iran's Oil Minister Bijan Namdar Zangeneh said Tuesday. Zangeneh's comments are in line with many oil analysts, who estimate Iran's largest oil fields are losing between 7% and 8% of output each year.

A loss of 300,000 b/d would represent 7.5% of Iran's 4 million b/d production.

I will continue with the remaining sources at a later date, but will leave with reference to a post made at the end of last month, where there is a country-by-country list of [relative change over the past year](#).

Technorati Tags: [peak oil](#), [oil](#)



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